

KENTUCKY ECONOMIC INDICATORS

February 2006 Indicators as of April 19, 2006

KY Composite Index of Leading Indicators decreased 3.3 percent in February.

- The Leading Index decreased for the first time in five months.
- The Leading Index rose by 1.0 percent over the same month last year.
- All five components were negative, 0:5.
 - KY Labor Intensity Index decreased 1.3 percent.
 - The US Leading Index decreased 2.6 percent.
 - The KY Index of Initial UI Claims decreased 8.3 percent.
 - US Retail Sales decreased 9.3 percent.
 - The Louisville Help Wanted Index declined 2 points to 42.

Component weights for February are 53.06, 19.73, 14.75, 10.71, and 1.75 respectively.

KY Composite Index of Coincident Indicators increased 1.5 percent in February.

- The Coincident Index is positive for the first time this year.
- Same-month-last-year growth is positive for the thirty-first consecutive month at 1.7 percent.
- Component indicators were mixed, 2:1.
 - KY Total Nonagricultural Employment decreased 1.4 percent.
 - + US Industrial Production Index increased 6.1 percent.
 - + US Personal Income Less Transfers increased 3.0 percent.

Component weights for February are 40.39, 25.67 and 20.88 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

All five Kentucky Leading Index components were negative for February. The last time all components were negative was September 2001, which was at the end of the 2001 recession. Four of the components were moderately or strongly negative. The Kentucky Labor Intensity Index had the smallest decline, and also carries the largest weight in the Kentucky Leading Index. The Kentucky Labor Intensity Index has been erratic over the last year and is again back at its February 2005 level of 105.1. The Labor Intensity Index showed some signs of recovery in the last nine months of 2003, but has shown no clear trend since then.

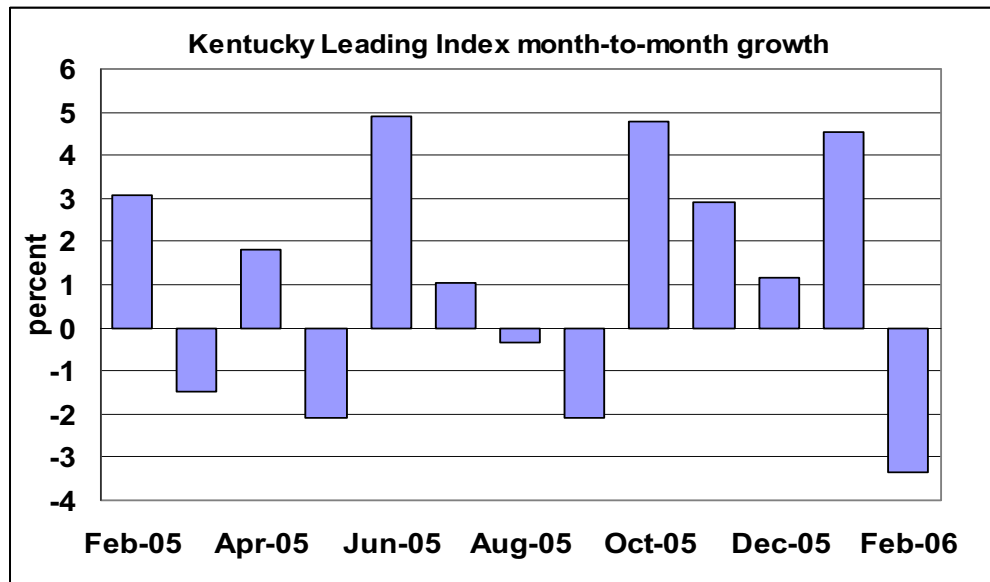
The US Leading Index declined for February, but is still doing very well overall. It is 2 percent (annual rate) above its level in February 2005. Also, before February it made five consecutive gains since August 2005.

The Kentucky Index of Initial Unemployment Insurance Claims decreased moderately. Both components of the index contributed to the decline. Kentucky First Pays rose by 766 seasonally adjusted individuals. This is a 9.8 percent increase over January 2006. US Initial Claims rose by 9,700 seasonally adjusted individuals. This is a 3.4 percent increase over January 2006. Kentucky First Pays is a relatively high variance series, and thus the 9.8 percent monthly change is not considered extreme.

US Retail Sales was the largest mover in February, declining 9.3 percent. Despite the poor monthly showing for February, US Retail Sales is doing extremely well over the last 13 months. The series has made a net 7.5 percent gain since February 2005. It reached its all-time high of \$361 billion during January 2006. US Retail Sales have averaged 9.0 percent month-to-month growth over the last 13 months as well. While the series is highly volatile on a monthly basis, it also has a very strong positive trend component, which has gotten steeper in the last two years.

Kentucky Nonagricultural Employment declined 1.4 percent for February, thus offsetting most of the gains made in January. Overall the series is still sound and positive. Nearly 21,000 new net jobs have been gained since February 2005. The February decline in Nonagricultural Employment was pretty well distributed. Construction; Trade, Transportation and Utilities; Professional and Business Services; Leisure and Hospitality; Other Services; and Government Employment shared fairly equally in the net losses for February. Kentucky Manufacturing Employment showed a modest increase for February. Incidentally, this is the largest single month growth in Manufacturing Employment since October 2005.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

Office of State Budget Director

Room 284, Capitol Annex
Phone: 502-564-7300 - taj@mail.state.ky.gov

Frankfort, Kentucky 40601-3453

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2005							2006					
	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB
KY Leading Index (1992=100)	114.8	114.7	114.8	114.6	115.1	115.2	115.2	115.0	115.4	115.7	115.8	116.2	115.9
% Chg Previous Month SAAR	3.1	-1.5	1.8	-2.1	4.9	1.1	-0.3	-2.1	4.8	2.9	1.2	4.6	-3.3
% Chg Same Month Last Year	1.2	0.6	1.0	0.6	1.0	1.2	1.0	0.8	1.1	1.2	1.1	1.5	1.0
KY Leading Index Diffusion Index	66.7	63.3	66.7	60.0	60.0	56.7	50.0	50.0	50.0	56.7	53.3	63.3	56.7
KY Coincident Index (1992=100)	129.7	129.7	129.8	130.0	130.5	130.5	129.6	130.3	130.7	131.3	131.8	131.8	132.0
% Chg Previous Month SAAR	3.1	0.3	0.3	2.1	4.5	0.2	-7.5	6.0	4.6	5.1	4.9	-0.3	1.5
% Chg Same Month Last Year	2.2	2.2	2.0	1.9	2.4	2.1	1.2	1.8	1.7	1.9	1.2	1.9	1.7
KY Nonag Employment (000s)	1,815.5	1,816.2	1,821.2	1,823.3	1,826.1	1,822.7	1,831.1	1,832.1	1,833.4	1,833.9	1,836.0	1,838.5	1,836.3
% Chg Previous Month SAAR	3.4	0.5	3.4	1.4	1.9	-2.2	5.7	0.7	0.9	0.3	1.4	1.6	-1.4
% Chg Same Month Last Year	1.4	1.2	1.4	1.7	1.6	1.6	1.7	1.6	1.6	1.5	1.4	1.6	1.1
KY Mfg Employment (000s)	262.7	263.0	263.4	263.1	263.0	256.8	261.9	262.1	263.0	262.7	262.0	261.8	262.1
% Chg Previous Month SAAR	-0.9	1.4	1.8	-1.4	-0.5	-24.9	26.6	0.9	4.2	-1.4	-3.2	-0.9	1.4
% Chg Same Month Last Year	-0.7	-0.5	0.0	-0.4	-0.4	-0.5	-0.9	-0.7	-0.3	-0.5	-0.5	-0.4	-0.2
KY Unemployment Rate (%)	5.6	5.8	5.9	6.0	6.1	6.2	6.2	6.4	6.4	6.4	6.5	6.3	6.3
KY Index of Initial UI Claims	104.0	103.4	103.6	102.6	103.4	103.3	102.9	100.1	102.4	103.2	103.7	105.4	104.6
% Chg Previous Month SAAR	16.5	-7.1	2.4	-11.3	10.6	-1.7	-3.9	-28.7	30.9	10.3	6.2	21.4	-8.3
% Chg Same Month Last Year	2.6	1.3	1.5	0.2	1.0	1.6	0.8	-2.5	-0.4	0.7	0.6	2.6	0.6
KY Labor Intensity Index (1992=100)	105.1	105.3	105.4	105.2	105.1	105.0	104.9	104.9	105.0	105.0	104.9	105.2	105.1
% Chg Previous Month SAAR	0.2	1.9	1.2	-1.8	-0.9	-2.1	-0.2	-0.7	1.3	0.2	-1.0	2.8	-1.3
% Chg Same Month Last Year	0.3	0.4	0.4	0.3	0.2	0.2	0.0	-0.1	0.1	0.1	-0.1	0.1	-0.1
Louisville HWI (1992=100)	41.0	40.0	38.0	39.0	41.0	41.0	46.0	56.0	54.0	52.0	52.0	44.0	42.0
% Chg Previous Month SAAR	-25.1	-25.6	-46.0	36.6	82.2	0.0	297.8	959.6	-35.4	-36.4	0.0	-86.5	-42.8
% Chg Same Month Last Year	-25.5	-28.6	-25.5	-18.8	-19.6	-8.9	-2.1	40.0	31.7	23.8	26.8	4.8	2.4
GF Total Tax Receipts (\$ mill)	500.8	568.6	808.4	525.6	738.7	573.9	555.1	778.4	632.7	631.1	836.3	681.4	508.0
% Chg Same Month Last Year	8.3	11.7	12.1	9.6	16.6	10.5	8.1	18.8	12.3	7.4	17.8	3.3	1.4
GF Sales & Use Receipts (\$ mill)	176.3	200.1	224.2	216.1	219.6	238.5	217.4	229.6	235.6	218.6	228.8	289.0	191.1
% Chg Same Month Last Year	7.5	8.2	3.1	5.1	9.9	5.5	2.7	11.1	5.2	8.7	5.1	6.5	8.4
GF Income Tax Receipts (\$ mill)	231.5	176.1	413.7	215.3	266.3	238.1	250.8	278.0	259.3	234.0	254.3	220.9	199.1
% Chg Same Month Last Year	6.6	24.0	12.8	13.6	-1.4	6.2	2.2	2.1	3.8	1.7	-1.8	-12.6	-14.0

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2005						2006						
	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB
US Leading Index (1996=100)	136.3	135.4	135.5	135.6	137.1	136.9	137.0	135.8	136.9	138.2	138.6	139.3	139.0
% Chg Previous Month SAAR	4.5	-7.6	0.9	0.9	14.1	-1.7	0.9	-10.0	10.2	12.0	3.5	6.2	-2.6
% Chg Same Month Last Year	4.4	2.3	2.3	1.7	2.5	2.0	1.9	1.0	1.9	2.2	1.8	2.6	2.0
US Coincident Index (1992=100)	119.3	119.4	119.5	119.8	120.2	120.5	119.5	120.1	120.5	121.2	121.7	121.7	122.1
% Chg Previous Month SAAR	1.0	1.0	1.0	3.1	4.1	3.0	-9.5	6.2	4.1	7.2	5.1	0.0	4.0
% Chg Same Month Last Year	2.8	2.4	2.3	2.2	2.6	2.6	1.4	2.0	1.9	2.3	1.5	2.1	2.3
US Nonag Employment (Mil.)	132.7	132.9	133.1	133.2	133.4	133.6	133.8	133.8	133.9	134.2	134.4	134.5	134.8
% Chg Previous Month SAAR	2.4	1.3	2.1	1.0	1.5	2.2	1.6	0.4	0.3	3.2	1.3	1.4	2.0
% Chg Same Month Last Year	1.7	1.6	1.5	1.4	1.5	1.6	1.7	1.6	1.3	1.5	1.5	1.6	1.5
US Unemployment Rate (%)	5.4	5.1	5.1	5.1	5.0	5.0	4.9	5.1	4.9	5.0	4.9	4.7	4.8
US Initial Claims for UI (000s)	307.4	337.8	321.9	334.7	320.7	316.7	317.0	404.7	350.5	322.8	316.9	284.2	293.9
% Chg Previous Month SAAR	-57.5	210.1	-43.9	59.7	-40.1	-14.0	1.1	1,774.5	-82.2	-62.8	-19.9	-72.9	49.6
% Chg Same Month Last Year	-13.7	-1.9	-6.8	-2.6	-5.6	-7.5	-6.9	17.3	3.5	-3.4	-4.0	-13.9	-4.4
US Industrial Production Index	107.4	107.3	107.2	107.4	108.3	108.3	108.6	107.2	108.4	109.4	110.4	110.0	110.6
% Chg Previous Month SAAR	4.7	-0.5	-1.4	2.8	10.0	-0.2	3.5	-14.7	14.6	11.7	12.0	-4.3	6.1
% Chg Same Month Last Year	3.7	4.0	3.1	2.4	3.7	3.1	3.1	2.0	2.4	3.2	3.5	2.9	3.0
US Personal Income Less Trans. (Bil. 92\$)	7,811.7	7,820.2	7,798.6	7,822.9	7,862.9	7,898.4	7,561.4	7,855.0	7,878.2	7,943.0	7,987.5	7,992.0	8,011.6
% Chg Previous Month SAAR	2.7	1.3	-3.3	3.8	6.3	5.6	-40.7	58.0	3.6	10.3	6.9	0.7	3.0
% Chg Same Month Last Year	3.4	3.5	2.9	3.1	3.7	3.5	-1.1	2.8	2.1	2.5	-1.0	2.5	2.6
CPI, All Urban (1982-84=100)	192.1	193.2	194.1	194.0	193.9	195.1	196.2	198.6	199.1	197.8	197.7	199.0	199.1
% Chg Previous Month SAAR	4.5	7.1	5.7	-0.6	-0.6	7.7	7.0	15.7	3.1	-7.6	-0.6	8.2	0.6
% Chg Same Month Last Year	3.0	3.2	3.5	2.9	2.5	3.1	3.6	4.7	4.4	3.5	3.4	4.0	3.6
US Retail Sales (Bil. 84\$)	333.9	334.5	340.5	338.6	343.0	351.5	345.1	346.6	347.4	349.6	351.1	361.7	358.8
% Chg Previous Month SAAR	12.5	2.2	23.8	-6.7	16.8	34.0	-19.6	5.1	3.1	7.8	5.1	43.2	-9.3
% Chg Same Month Last Year	7.0	5.4	8.5	5.8	9.4	9.9	8.1	6.6	6.2	6.7	5.8	9.4	7.5
Manufacturing & Trade Sales (000s)	933.1	932.9	937.8	944.3	948.4	950.4	951.8	944.2	946.0	958.2	965.0	975.5	*975.4
% Chg Previous Month SAAR	-8.8	-0.3	6.5	8.6	5.3	2.6	1.8	-9.1	2.3	16.5	9.0	13.7	-0.1
% Chg Same Month Last Year	4.9	2.1	3.5	3.8	4.2	3.8	3.4	2.5	2.5	3.6	3.0	3.7	4.5
US Consumer Expectations (1966=100)	84.4	82.8	77.0	75.3	85.0	85.5	76.9	63.3	63.2	69.6	80.2	78.9	74.5
% Chg Previous Month AR	-16.8	-20.5	-58.2	-23.5	328.0	7.3	-72.0	-90.3	-1.9	218.2	448.0	-17.8	-49.8
% Chg Same Month Last Year	-4.6	-6.8	-11.8	-7.7	-4.0	-6.3	-12.8	-28.1	-24.6	-18.3	-11.8	-7.9	-11.7
Ave. Prime Interest Rate (% NSA)	5.49	5.58	5.75	5.98	6.01	6.25	6.44	6.59	6.75	7.00	7.15	7.26	7.50
*ARIMA estimate													

*ARIMA estimate